

Message Text

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ACTION PM-05

INFO OCT-01 EA-10 ISO-00 MCE-00 ACDA-12 AID-05 CIAE-00
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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC PRIORITY 8380

C O N F I D E N T I A L JAKARTA 5437

E.O. 11652: GDS
TAGS: MASS, ETRD, ID
SUBJECT: REQUEST FOR ASSISTANCE ON SALE OF RADAR TO GOI

REF: (A) JAKARTA 5315, (B) STATE 041742, (C) JAKARTA 1942,
(D) JAKARTA 1874

1. THE GOI INTENDS TO PURCHASE SHORTLY TWO SURVEILLANCE RADAR SYSTEMS WITH A COMBINED VALUE OF \$16-17 MILLION. ITT HAS SOUGHT TO SELL ITS TPS320 SYSTEM, MANUFACTURED BY GILCRON, A WHOLLY-OWNED CALIFORNIA-BASED ITT SUBSIDIARY. ITT HAS NOW BEEN INFORMED IN WRITING, AS HAS PLESSEY OF THE U.K., THAT ITS OFFER IS NO LONGER BEING CONSIDERED. THOMPSON CSF OF FRANCE HAS BEEN INVITED TO BEGIN NEGOTIATIONS FOR THE SALE. DESPITE THIS, ITT'S LOCAL REP HAS BEEN TOLD INFORMALLY THAT AS LONG AS ANY HOPE EXISTS THAT THE RADAR COULD BE INCLUDED AS AN ADD-ON TO FMS OR THAT OTHER SATISFACTORY FINANCIAL ARRANGEMENTS COULD BE MADE, THE DOOR WILL STILL BE OPEN.

2. ITT VICE CHAIRMAN F.J. DUNLEAVY CURRENTLY IN INDONESIA ALONG WITH FOUR OTHER TOP ITT EXECUTIVES HAS TOLD THE AMBASSADOR HE BELIEVES THAT HIS COMPANY HAS BEEN DROPPED FROM CONSIDERATION SOLELY BECAUSE OF AN INADEQUATE FINANCING PACKAGE. THE ITT EQUIPMENT IS COMPETITIVE IN PRICE AND TECHNOLOGY. INDONESIANS
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HAVE TOLD ITT AND EMBASSY REPRESENTATIVES THAT ITT EQUIPMENT IS THEIR FIRST CHOICE. HOWEVER, COMMERCIAL FINANCING OFFERED BY ITT SIMPLY IS NOT COMPETITIVE WITH THE PACKAGE THOMPSON OFFERE. THE FRENCH PROPOSAL, ACCORDING TO ITT, IS THAT THE 20 PERCENT DOWN PAYMENT WILL BE FINANCED AT 1 1/2 PERCENT OVER LIBOR WITH 2 1/2 YEARS GRACE AND A FIVE YEAR REPAYMENT PERIOD. THE REMAINING 80 PERCENT WILL BE FINANCED AT A FIXED RATE OF

7 1/4 PERCENT WITH A 2 1/2 - 3 YEAR GRACE PERIOD AND FIVE YEARS REPAYMENT.

3. ITT BELIEVES THE GOI WILL BE IN THE MARKET OVER THE NEXT 5-6 YEARS FOR FOUR ADDITIONAL RADAR PACKAGES WITH A TOTAL EXPORT VALUE OF AROUND \$64 MILLION. THE LIKELIHOOD IS STRONG THAT THE SUPPLIER OF THE FIRST RADAR SYSTEM WILL ALSO SUPPLY THE SUBSEQUENT ONES. ITT EXECUTIVES STATE THAT THE GOI'S FIRST CHOICE WOULD BE TO INCLUDE THE RADAR SYSTEMS IN FMS AND THAT THE GOI MAY BRING UP THE MATTER WITH VICE PRESIDENT MONDALE (JAKARTA 4793). AMBASSADOR EXPLAINED THE PROBLEMS ASSOCIATED WITH SEEKING AN INCREASE IN THE FMS CEILING AND EXPRESSED DOUBT THAT THIS APPROACH WOULD BEAR FRUIT. ITT REPS QUESTIONED WHETHER THE FMS PROGRAM WAS FLEXIBLE ENOUGH FOR IT TO COVER GUARANTEES FOR COMMERCIAL LOANS AND ALSO RAISED POSSIBILITY OF EXIM FINANCING TO ENABLE THEM TO PIN DOWN THIS LARGE SALE.

4. COMMENT AND ACTION REQUESTED: AT A TIME WHEN WE ARE BEING URGED TO TAKE ALL POSSIBLE STEPS TO ASSIST IN THE PROMOTION OF U.S. EXPORTS, WE HATE TO SEE A POTENTIAL \$80 MILLION SALE LOST TO A U.S. FIRM WITHOUT DOING EVERYTHING POSSIBLE ON OUR PART TO MATCH THE AGGRESSIVE EXPORT FINANCING OF OTHER NATIONS. THIS IS ALL THE MORE TRUE IN VIEW OF THE NEARLY \$3 BILLION TRADE DEFICIT THE U.S. SUFFERED LAST YEAR WITH INDONESIA. SINCE EQUIPMENT IN QUESTION IS ON THE MUNITIONS LIST, WE HAVE BEEN CAREFUL NOT TO HELP PROMOTE ITT'S SALES EFFORT WITH CONFIDENTIAL

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THE GOI. EQUIPMENT IS, HOWEVER, NON-LETHAL AND DEFENSIVE IN NATURE; GOI HAS TAKEN INITIATIVE IN PURSUING SALE, WHICH IT FINDS ATTRACTIVE EXCEPT FOR FINANCING; AND THE PURCHASING COUNTRY IS ONE WITH WHICH WE VALUE HIGHLY OUR CONTINUED CLOSE TIES. THIS CONSEQUENTLY SEEMS AN APPROPRIATE OPPORTUNITY TO DEMONSTRATE TO AMERICAN EXPORTERS THAT THE USG'S RECENT STATEMENTS ON THE NEED TO INCREASE EXPORTS ARE BEING IMPLEMENTED. REQUEST DEPARTMENT URGENTLY TO REVIEW THIS MATTER AGAIN TO SEE IF THERE IS NOT SOME WAY -- FMS, EXIM OR ANY OTHER -- FOR THE USG TO FACILITATE FINANCING FOR THIS IMPORTANT SALE. MASTERS

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